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SGI CANADA Insurance Services Ltd.
2002

A N N U A L R E P O R T



Responsibility for Financial Statements

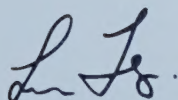
The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

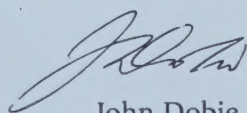
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Legislation Review Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Larry Fogg
President



John Dobie
Vice President
Finance

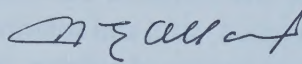
February 14, 2003

Actuary's Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2002 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Toronto, Ontario
February 14, 2003

Jean-Luc E. Allard
Fellow, Canadian Institute of Actuaries

Auditors' Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

We have examined the consolidated statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 2002 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 14, 2003

Consolidated Statement of Financial Position

December 31

2002

2001

(thousands of \$)

Assets

Cash and treasury bills (note 3)	\$ 8,997	\$ 4,413
Accounts receivable (note 4)	25,528	17,664
Deferred policy acquisition costs	3,225	3,458
Unpaid claims recoverable from reinsurers (notes 7 & 8)	17,367	6,266
Reinsurers' share of unearned premiums (note 7)	333	1,490
Future income taxes	762	4,120
Goodwill	481	481
Investments (note 5)	52,138	55,217
Capital assets (note 6)	<u>185</u>	<u>214</u>
	<u>\$ 109,016</u>	<u>\$ 93,323</u>

Liabilities

Accounts payable	\$ 2,278	\$ 1,281
Premium taxes payable	601	395
Future income taxes	111	311
Amounts due to reinsurers (note 7)	129	430
Provision for unpaid claims (note 8)	67,884	44,191
Unearned reinsurance commissions	101	500
Unearned premiums	<u>26,003</u>	<u>20,424</u>
	<u>97,107</u>	<u>67,532</u>

Non-controlling interest

743 **1,107**

Shareholders' equity

Share capital (note 12)	17,854	16,900
Contributed surplus (note 12)	7,487	7,487
Retained earnings (deficit)	<u>(14,175)</u>	<u>297</u>
	<u>11,166</u>	<u>24,684</u>
	<u>\$ 109,016</u>	<u>\$ 93,323</u>

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings (Deficit)

year ended December 31	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Premiums written	<u>\$ 49,860</u>	<u>\$ 24,370</u>
Premiums earned (note 7)	<u>\$ 39,872</u>	<u>\$ 22,033</u>
Claims incurred (notes 7 and 9)	41,087	19,093
Commissions (note 7)	6,861	2,920
Premium taxes (note 7)	1,412	770
Administrative expenses (note 7)	4,493	2,495
Facility Association participation (note 16)	<u>667</u>	<u>51</u>
Total claims and expenses	<u>54,520</u>	<u>25,329</u>
Underwriting loss	(14,648)	(3,296)
Investment earnings (note 10)	<u>3,420</u>	<u>2,398</u>
Loss before taxes and non-controlling interest	(11,228)	(898)
Future income tax expense (recovery) (note 11)	3,152	(1,059)
Capital taxes	<u>56</u>	<u>10</u>
Income (loss) after taxes and before non-controlling interest	(14,436)	151
Non-controlling interest	<u>36</u>	<u>(143)</u>
Net income (loss)	(14,472)	294
Retained earnings, beginning of year	<u>297</u>	<u>3</u>
Retained earnings (deficit), end of year	<u>\$ (14,175)</u>	<u>\$ 297</u>

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Cash provided by (used for) operating activities		
Net income (loss)	\$ (14,472)	\$ 294
Non-cash items:		
Amortization	414	245
Realized gain on disposal of investments and capital assets	(162)	(1,117)
Loss from equity investment	(28)	633
Investment write downs	107	199
Income attributable to non-controlling interest	36	(143)
Change in non-cash operating items (note 13)	<u>15,358</u>	<u>(280)</u>
	<u>1,253</u>	<u>(169)</u>
Cash provided by (used for) investing activities		
Purchases of investments	(112,712)	(47,408)
Purchase of Coachman (net of cash equivalents acquired from acquisition)	-	(6,241)
Purchase of ICPEI (net of cash equivalents acquired from acquisition)	-	(1,804)
Proceeds on sale of investments	113,298	43,219
Purchases of capital assets	<u>(87)</u>	<u>(33)</u>
	<u>499</u>	<u>(12,267)</u>
Cash provided by financing activities		
Common share issuance	954	8,200
Preferred share purchase	(400)	-
Contributed surplus	-	6,487
Shareholder contributions in ICPEI	<u>-</u>	<u>261</u>
	<u>554</u>	<u>14,948</u>
Increase in cash and cash equivalents	2,306	2,512
Cash and cash equivalents:		
Balance, beginning of year	<u>2,669</u>	<u>157</u>
Balance, end of year	4,975	2,669
Plus treasury bills greater than 91 days to maturity from acquisition date	<u>4,022</u>	<u>1,744</u>
Cash and treasury bills per statement of financial position	<u>\$ 8,997</u>	<u>\$ 4,413</u>

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2002

1. STATUS OF THE CORPORATION

SGI CANADA Insurance Services Ltd. (the Corporation) was incorporated July 18, 1990, under the *Business Corporations Act of Saskatchewan*. The Corporation holds a Saskatchewan provincial insurers' licence under the *Saskatchewan Insurance Act* and is licensed to conduct business in Manitoba, Ontario and Prince Edward Island.

Saskatchewan Government Insurance (SGI CANADA) owns 84% (2001 – 83%) of the Corporation and its financial results are included in the consolidated financial statements of SGI CANADA.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation, its 100%-owned subsidiary, Coachman Insurance Company (Coachman), and its 75%-owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI). All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

The excess of the purchase price of acquired businesses over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. All goodwill acquired in a business combination is allocated to one or more of the Corporation's reporting units as at the date of acquisition.

In 2002, the Corporation adopted new recommendations by the Canadian Institute of Chartered Accountants (CICA) on goodwill. Under the new provisions, the Corporation will cease to amortize goodwill, and the goodwill of a reporting unit will be tested for impairment on an annual basis. The impairment test can be done between annual tests if an event or circumstance occurs that more likely than not impairs the asset. The goodwill impairment test has two steps. In the first step, the carrying amount of each reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the

impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Any impairment losses arising from the annual tests are charged to income. The impairment test of allocated goodwill resulted in no impairment loss at Dec. 31, 2002.

Adoption of this standard had no impact on the financial results other than the elimination of the annual goodwill amortization of \$28,000 beginning in 2002.

Investments

Bonds and debentures are recorded at amortized cost. Treasury bills, common shares and preferred shares are recorded at cost. Dividends on common shares and preferred shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of trade.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Capital assets

Capital assets are recorded at cost, less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives of three years for computer hardware and software and five years for other equipment.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

3. CASH AND TREASURY BILLS

Cash and treasury bills include treasury bills and commercial paper that have an average effective interest rate of 2.8% (2001 - 2.6%) and an average remaining term to maturity of 86 days (2001 - 72 days). The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating agency.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Financed premiums receivable	\$ 12,504	\$ 10,651
Due from brokers	3,367	2,879
Investment receivable	3,244	691
Due from reinsurers	2,055	421
Facility Association receivable	1,747	1,055
Due from self-insured retentions	1,285	705
Accrued investment income	501	501
Prepaid expenses	438	402
Other	<u>387</u>	<u>359</u>
Total accounts receivable	<u>\$ 25,528</u>	<u>\$ 17,664</u>

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	<u>2002</u>		<u>2001</u>	
	(thousands of \$)			
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Bonds and debentures	\$ 46,565	\$ 47,988	\$ 35,071	\$ 35,668
Common shares	3,983	4,274	8,856	9,831
Preferred shares	<u>608</u>	<u>629</u>	<u>9,139</u>	<u>9,144</u>
	51,156	52,891	53,066	54,643
Investments accounted for on an equity basis	<u>982</u>	<u>982</u>	<u>2,151</u>	<u>2,151</u>
Total investments	<u>\$ 52,138</u>	<u>\$ 53,873</u>	<u>\$ 55,217</u>	<u>\$ 56,794</u>

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 5% of the market value of investment assets for corporate bonds and debentures and 25% for bonds and debentures issued by any one province. Also, a minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	2002		2001	
	(thousands of \$)			
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	\$ —	—	\$ 439	7.4%
After one through five	13,816	4.5%	9,039	5.6%
After five	10,919	5.9%	8,264	6.2%
Canadian provincial:				
After one through five	4,756	6.5%	5,198	6.6%
After five	5,864	5.7%	4,592	6.1%
Canadian corporate:				
One or less	—	—	350	8.0%
After one through five	7,513	6.0%	3,469	6.1%
After five	3,697	6.2%	3,720	6.6%
Total bonds and debentures	\$ 46,565		\$ 35,071	

(ii) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 2.0% (2001 - 2.2%).

(iii) Preferred shares:

Preferred shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 5.3% (2001 - 5.7%).

(iv) Investments accounted for on an equity basis:

In 2001, the Corporation had 9% ownership in a crop hail insurance business and indirectly controlled an additional 27% of the business through preferred share ownership in other crop hail insurance companies. In 2002, SCISL sold the investment in the crop hail insurance business to its parent company SGI CANADA at book value.

The Corporation invested \$954,000 in 2002 to obtain 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd. (CCIA), Atlantic Adjusting & Appraisals Ltd. (AAA) and Maritime Finance & Acceptance Corporation (MFAC).

6. CAPITAL ASSETS

The components of the Corporation's investment in capital assets, as well as the related accumulated amortization, are as follows:

	<u>2002</u>			<u>2001</u>
	(thousands of \$)			
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer hardware, software and other equipment	<u>\$ 795</u>	<u>\$ 610</u>	<u>\$ 185</u>	<u>\$ 214</u>
Total	<u>\$ 795</u>	<u>\$ 610</u>	<u>\$ 185</u>	<u>\$ 214</u>

Amortization for the year is \$116,000 (2001 - \$114,000).

7. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount of \$150,000 (2001 - \$50,000) on any one loss, and \$250,000 (2001- \$500,000) on any one catastrophe.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions and administrative expenses:

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Premiums earned	\$ 5,782	\$ 5,921
Claims incurred	17,645	2,380
Commissions and premium taxes	406	781
Administrative expenses	185	381

8. PROVISION FOR UNPAID CLAIMS

(i) Nature and variability of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the balance sheet date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Through its subsidiary, the Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the balance sheet date total \$718,000 (2001 - \$831,000).

Changes in the estimate for the provision for unpaid claims are as follows:

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Net unpaid claims – beginning of year	\$ 37,925	\$ 1,373
Provision for self-insured retention	(705)	(3,675)
Unpaid claims acquired through acquisition	–	37,701
Payments made during the year relating to prior year claims	(15,987)	(13,079)
Deficiency relating to prior year estimated unpaid claims	<u>7,125</u>	<u>429</u>
Net unpaid claims for claims of prior years	28,358	22,749
Provision for claims occurring in the current year	<u>22,159</u>	<u>15,176</u>
Net unpaid claims – end of year	<u>\$ 50,517</u>	<u>\$ 37,925</u>

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

	2002			2001		
	(thousands of \$)					
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	\$ 62,738	\$ 15,506	\$ 47,232	\$ 39,682	\$ 4,287	\$ 35,395
Property	2,382	523	1,859	3,355	1,642	1,713
Liability	2,764	1,338	1,426	1,154	337	817
Total	\$ 67,884	\$ 17,367	\$ 50,517	\$ 44,191	\$ 6,266	\$ 37,925

9. CLAIM DEVELOPMENT RECOVERY

The Corporation acquired 75% of the outstanding shares of the Insurance Company of Prince Edward Island (ICPEI) for cash of \$2,770,000 on Jan. 1, 2001. A recovery on prior year claim development was negotiated as part of the purchase agreement whereby the previous owner will refund to the Corporation an amount equal to 75% of any unfavourable development on claims in ICPEI with loss dates prior to 2001. Conversely, the Corporation will pay to the previous owner an amount equal to 75% of favourable development on claims with loss dates prior to 2001. The payment in both instances is subject to a \$100,000 deductible and is calculated after tax. This agreement is in effect until Dec. 31, 2003 with payment to be made by March 31, 2004. In 2002, unfavourable development on these prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of \$72,000 (2001 - \$461,000). The total receivable at Dec. 31, 2002 is \$533,000.

On July 1, 2001 the Corporation acquired 100% of the outstanding shares of Coachman Insurance Company (Coachman) for cash of \$8,185,000. Of the original investment of \$8,185,000, \$2,700,000 is held in a trust account by the Corporation's legal counsel as a holdback for recovery of unfavourable claim development on claims with loss dates prior to April 30, 2001. This agreement is in effect until Dec. 31, 2002 with payment to be made by March 31, 2003. In the current year, unfavourable development on prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of \$2,481,000 (2001 - \$231,000). The total receivable at Dec. 31, 2002 of \$2,712,000 includes accrued interest on the holdback.

10. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Interest and dividends	\$ 3,315	\$ 2,113
Realized gain on sale of investments	184	1,117
Income (loss) from equity investments	28	(633)
Investment writedowns	<u>(107)</u>	<u>(199)</u>
Total investment earnings	<u>\$ 3,420</u>	<u>\$ 2,398</u>

11. INCOME TAX

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Net loss before income taxes	<u>\$ (11,320)</u>	<u>\$ (765)</u>
Combined federal and provincial tax rate	42.62%	45.12%
Computed tax expense based on combined rate	\$ (4,825)	\$ (345)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(1,119)	(608)
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	1,301	-
Difference in tax rates between subsidiaries and parent	568	19
Valuation allowance	7,140	-
Other	<u>87</u>	<u>(125)</u>
Total income tax expense (recovery)	<u>\$ 3,152</u>	<u>\$ (1,059)</u>

The Corporation has non-capital loss carry forwards of approximately \$23,156,000 (2001 - \$8,366,000) that expire on dates ranging from 2007 to 2009.

12. SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of non-voting first preferred shares. During the year, the Corporation issued 164,785 common shares to SGI CANADA in exchange for \$954,000. At the end of 2002 there are 3,407,078 (2001 - 3,242,293) common shares issued. In 2001, the Corporation issued 2,042,193 common shares to SGI CANADA in exchange for \$10,900,000 and SGI CANADA contributed an additional \$6,487,000 in contributed surplus.

13. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Change in non-cash operating items:		
Accounts receivable	\$ (7,864)	\$ 1,167
Deferred policy acquisition costs	233	(595)
Unpaid claims recoverable from reinsurers	(11,101)	2,316
Reinsurers' share of unearned premiums	1,157	628
Future income taxes	3,158	(769)
Accounts payable	997	(393)
Premium taxes payable	206	(127)
Amounts due to reinsurers	(301)	414
Provision for unpaid claims	23,693	(3,436)
Unearned reinsurance commissions	(399)	(219)
Unearned premiums	<u>5,579</u>	<u>734</u>
	<u>\$ 15,358</u>	<u>\$ (280)</u>

14. FAIR VALUE

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

- (i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:
 - (a) cash and treasury bills
 - (b) accounts receivable
 - (c) accounts payable
 - (d) premium taxes payable
 - (e) amounts due to reinsurers

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges based on the latest bid prices:

- (a) bonds and debentures
- (b) common shares
- (c) preferred shares

(iii) Equity investments

The fair value of investments accounted for on the equity basis is considered to approximate book value.

(iv) Provision for unpaid claims and unpaid claims recoverable from reinsurers

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Transactions and amounts outstanding at year end are as follows:

<u>Category</u>	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Investments	\$ 896	\$ -
Accounts receivable	3	-
Investment earnings	58	-

SGI CANADA provides management and administrative services to the Corporation as well as being the reinsurer (note 7). Administrative and claim adjusting expenses incurred by SGI CANADA and charged to the Corporation were \$55,000 (2001 - \$59,000) and accounts receivable are \$283,000 (2001 - \$41,000).

Related party transactions arise through the Corporation's acquisition of 25% ownership in companies acquired in 2002. Through its 75% ownership in ICPEI, the Corporation has direct premiums that are written with Charlie Cooke Insurance Agency Ltd. (CCIA), claim adjusting fees from Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). In 2001 the Corporation was affiliated with these companies through a minority shareholder of ICPEI who is a member of ICPEI's senior management. The Corporation's receivable from CCIA at the end of the year is \$624,000 (2001 - \$676,000) and direct premiums written through CCIA are \$9,981,000 (2001 - \$7,228,000).

Commissions paid to CCIA in 2002 are \$1,056,000 (2001 - \$862,000). The Corporation incurred \$360,000 (2001 - \$301,000) in claim adjusting fees from AAA and premiums financed through MFAC in 2002 were \$3,363,000 (2001 - \$2,512,000). The policies written and the claim adjusting expenses paid are in the normal course of business.

In 2002, the Corporation invested \$2,700,000 in contributed surplus in Coachman. Also in 2002, the Corporation entered into a fronting agreement, whereby Coachman sells property and casualty products in Ontario through its distribution system for the Corporation in return for a fronting fee. In 2002, premiums written through the fronting agreement were \$619,000, fees paid to Coachman were \$31,000 and accounts payable are \$14,000.

16. FACILITY ASSOCIATION

Through its subsidiaries, the Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	<u>2002</u>	<u>2001</u>
	(thousands of \$)	
Premiums written	<u>\$ 2,032</u>	<u>\$ 980</u>
Premiums earned	<u>\$ 1,640</u>	<u>\$ 927</u>
Claims incurred	1,907	817
Commissions	217	119
Premium taxes	67	33
Administrative expenses	<u>169</u>	<u>72</u>
Total claims and expenses	<u>2,360</u>	<u>1,041</u>
Underwriting loss	(720)	(114)
Investment earnings	<u>53</u>	<u>63</u>
Net loss	<u>\$ (667)</u>	<u>\$ (51)</u>
Facility Association receivable	\$ 1,747	\$ 1,055
Unearned premiums	555	163
Provision for unpaid claims	2,457	1,543

17. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2001 balances have been reclassified to conform to 2002 financial statement presentation.

